

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 SS-15 NSC-05 AGRE-00
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-----003973 030333Z /21

R 030150Z MAY 78
FM USLO PEKING
TO SECSTATE WASHDC 0598
INFO AMCONSUL HONG KONG
AMEMBASSY TAIPEI
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 1233

E.O. 11652: GDS
TAGS: EEWT US CH
SUBJ: THE SPRING CANTON FAIR: EARLY TRENDS

1. SUMMARY. BY THE TENTH DAY OF THE FAIR, CHINESE OFFICIALS WERE ADMITTING THAT THE NUMBER OF VISITORS WAS DOWN COMPARED WITH PREVIOUS SPRING FAIRS. THEY WERE NOT YET ADMITTING THAT BUSINESS WAS ALSO DOWN, BUT THIS WAS THE CONSENSUS OF EXPERIENCED OBSERVERS. TEXTILES, NATIVE PRODUCE, ARTS AND CRAFTS AND LIGHT INDUSTRY WERE THE MAIN CORPORATIONS DOING BUSINESS WITH AMERICANS, AS IS TRADITIONALLY THE CASE. SOME \$10 MILLION IN BUSINESS, ALMOST ENTIRELY IMPORTING, WAS KNOWN TO HAVE BEEN DONE BY AMERICANS IN THE FIRST TEN DAYS. GENERALLY SPEAKING, PRICES SHOWED LITTLE OR NO INCREASE OVER PREVIOUS FAIRS, PERHAPS INDICATING THE SOFTNESS OF WORLDWIDE MARKETS FOR CHINESE GOODS. SHORTAGES, SOMETIMES COMBINED WITH SUBSTANTIAL PRICE INCREASES, WERE NOTED IN CASHMERE, SOME BASKETWARE, RAW FEATHERS AND DOWN, GARLIC, CHILLIES, GINGER, CASHEWS AND SILK. MANY TRADERS REMARKED THAT CHINESE CORPORATIONS WERE MANIFESTING
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A DRAMATICALLY IMPROVED ATTITUDE AND A REAL DESIRE TO RESOLVE PROBLEMS AND FACILITATE TRADE. THE CONTROVERSY OVER PRIVATE LABELS IN TEXTILES IS OVER, AS THE CHINESE HAVE BOWED TO IMPORTER DEMANDS. THE NATIVE PRODUCE, TEXTILES AND ARTS AND CRAFTS CORPORATIONS WERE INDICATING WILLINGNESS TO ENGAGE IN "BUY-BACK" SCHEMES WITH IMPORTERS. ONE US FIRM

ARRANGED A ROSIN-DMT "SWAP" THAT REQUIRED UNWANTED COOPERATION BETWEEN THE TWO CHINESE CORPORATIONS INVOLVED. END SUMMARY.

2. DURING THE FIRSTWEEK OF THE CANTON FAIR, WHICH OPENED ON APRIL 15, IT BECAME CLEAR TO EXPERIENCED TRADERS THAT THE NUMBER OF BUSINESS VISITORS WAS DOWN, PERHAPS BY AS MUCH AS ONE-THIRD. BY THE SECOND WEEK, PRC OFFICIALS WERE ADMITTING A DECLINE BUT WERE REFUSING TO SUGGEST THAT THIS WOULD REDUCE TOTAL SALES DURING THE FAIR. THE DECLINE IN US VISITORS SEEMED TO INCLUDE BOTH "OLD FRIENDS" AND NEWCOMERS AND EXTEND TO ALL THE CORPORATIONS EXCEPT PERHPAS LIGHT INDUSTRY. A TEXTILE CORPORATION OFFICIALS TOLD USLO OFFICER THAT INVITATIONS HAD BEEN EXTENDED TO OVER 100 US FIRMS, BUT ONLY A FRACTION OF THIS NUMBER APPEARED DURING THE FIRST TEN DAYS. EUROPEAN BUSINESSMEN AND DIPLOMATS STATED THAT EEC COUNTRY ATTENDANCE WAS ALSO DOWN. ONLY THE JAPANESE WERE EXPECTING MORE VISITORS -- UP TO 3,250 FROM 3,000 AT THE PREVIOUS TWO FAIRS. OVERSEAS CHINESE WERE PRESENT IN THEIR USUALLY LARGE NUMBERS. IN INTERVIEWS GIVEN TO THE PRESS DURING THE FIRST WEEK, FAIR OFFICIALS STATED THAT CERTAIN QUANTITIES OF GOODS WERE BEING HELD IN RESERVE FOR LATE ARRIVALS TO THE FAIR. THIS LINE MAY HAVE BEEN INTENDED TO LURE BUYERS WHO HAD INITIALLY DECIDED

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AGAINST ATTENDING.

3. THE BULK OF US BUSINESS WAS CONCLUDED WITH THE NATIVE PRODUCE, TEXTILES, ARTS AND CRAFTS AND LIGHT INDUSTRY CORPORATIONS. MOST RAW FEATHERS AND DOWN AND DOWN GARMENTS BUYERS LEFT DURING THE FIRST WEEK COMPLAINING OF PROHIBITIVE PRICES FOR RAW PRODUCTS, BUT SOME BUSINESS WAS DONE IN DOWN GARMENTS AND BEDDING WHERE PRICES WERE UP TO A LESSER EXTENT. CASHMERE PRICES WERE HIGH AND QUANTITY VERY TIGHT COMPARED WITH PREVIOUS YEARS, A SITUATION WHICH ONE CHINESE NEGOTIATOR ATTRIBUTED TO INCREASED DOMESTIC CONSUMPTION. HIGH WORLD DEMAND AND INELASTIC SUPPLY WERE PROBABLY MORE IMPORTANT, HOWEVER CARPET

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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 1233

BUSINESS WAS VERY LIGHT. MOST TEXTILE BUYERS EXPRESSED SATISFACTION WITH PRICES -- IN MANY CASES UNCHANGED OR ONLY MODERATELY INCREASED -- FOR COTTON AND WOOL PIECE GOODS AND GARMENTS. THE VERY SHORT SUPPLY OF SILK FABRIC WAS DISAPPOINTING TO MAJOR BUYERS. SEVERAL SIGNIFICANT COTTON PIECE GOODS DEALS WERE UNDER DISCUSSION ON THE TENTH DAY. US BUSINESS IN THE ARTS AND CRAFTS AND LIGHT INDUSTRY SEEMED FAIRLY GOOD, WITH BASKETWARE, CLOISONNE, EARTHENWARE, GLASSWARE AND PORCELAIN AMONG THE MAJOR ITEMS. AS ALWAYS, CERTAIN FOODSTUFFS WERE IN SHORT SUPPLY, NOTABLY GARLIC, CHILLIES, GINGER AND CASHEWS. BY THE TENTH DAY USLO AND THE NCUSCT HAD CONFIRMED US IMPORT BUSINESS TOTALING ABOUT \$10 MILLION AND SOURCED AS FOLLOWS: NATIVE PRODUCE \$4.5 MILLION; LIGHT INDUSTRY \$750,000; ARTS AND CRAFTS \$650,000; TEXTILES \$550,000; ALL OTHER \$3.5 MILLION. WE ESTIMATE A TOTAL FIGURE OF AROUND \$15 MILLION, WHICH WOULD BE A SLOW START INDEED IN COMPARISON WITH THE LAST SPRING FAIR.

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4. MANY TRADERS REMARKED THAT CHINESE CORPORATIONS (OR THE MORE SOPHISTICATED BRANCHES OF THE CORPORATIONS WITH WHICH THEY DEALT) WERE MANIFESTING A DRAMATICALLY IMPROVED ATTITUDE TOWARD BUSINESS AND A REAL DESIRE TO RESOLVE PROBLEMS AND FACILITATE TRADE. TEXTILES, ALWAYS IN THE LEAD, WAS PRAISED FOR HAVING BOWED TO IMPORTER DEMANDS TO ACCEPT

PRIVATE LABELS IN GARMENTS. NATIVE PRODUCE, TEXTILES AND ARTS AND CRAFTS EITHER VOLUNTEERED OR ANSWERED AFFIRMAIVELY WHEN ASKED THAT THEY WOULD BE WILLING TO ENTER INTO "BUY-BACK" ARRANGEMENTS WITH IMPORTERS WHEREIN THE IMPORTER WOULD SELL RAW MATERIALS TO THE CORPORATION FOR PROCESSING AND THEN BUY THEM BACK. (THIS SUBJECT WILL BE TREATED IN SEPTTEL.) ANOTHER DEPARTURE WAS THE AGREEMENT BETWEEN HERCULES AND THE NATIVE PRODUCE AND CHEMICALS CORPORATIONS ACCORDING TO WHICH HERCULES WILL IMPORT ROSIN INTO ANTWERP AND "SWAP" DMT, WHICH WILL BE CARRIED BACK ON THE SAME SHIP. BOTH CORPORATIONS SIGNED THE CONTRACT, AN UNWONTED DISPLAY OF COOPERATION BETWEEN FTC'S.

5. COMMENT: IT IS FAR TOO EARLY TO SUGGEST THAT A NEW DAY HAS DAWNED IN THE CHINA TRADE. NO "BUY-BACK" DEALS ARE KNOWN TO HAVE BEEN CONCLUDED YET. ALSO, MANY OF THE OLD PROBLEMS OF LATE DELIVERY, POOR PACKAGING. BUREACURATIC INERTIA, ETC., THAT HAVE LONG PLAGUED THE TRADE WERE VEXING BUYERS AT THE FAIR. IT IS LIKELY THAT THE COMBINATION OF THESE OLD PROBLEMS AND SOFTNESS IN WORLD MARKETS FOR CHINESE GOODS WAS THE MAIN REASON FOR THE DROP IN ATTENDANCE. THE EASIER AVAILABILITY OF NON-FAIR VISAS HAS APPARENTLY ELIMINATED THE TORIST ELEMENT ATTENDING THE FAIR. CONFIDENTIAL

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